Financial statements of

The United Church of Canada Foundation/Fondation de l'Église Unie du Canada

December 31, 2011, December 31, 2010, and January 1, 2010

The United Church of Canada Foundation/ Fondation de l’Église Unie du Canada
December 31, 2011

Table of contents

May 18, 2012

Independent Auditor's Report

To the Board of Directors of
The United Church of Canada Foundation

We have audited the accompanying financial statements of The United Church of Canada Foundation, which comprise the statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, and the statements of operations, changes in fund balances and cash flows for the years ended December 31, 2011 and December 31, 2010, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers LLP, Chartered Accountants
400 Bradwick Drive, Suite 100, Concord, Ontario, Canada L4K 5V9
T: +1 905 326 6800, F: +1 905 326 5339

pwc

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of The United Church of Canada Foundation as at December 31, 2011, December 31, 2010 and January 1, 2010 and the results of its operations and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with Canadian accounting standards for not-for-profit organizations.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

The United Church of Canada Foundation/
Fondation de l'Église Unie du Canada

Statement of financial positions

as at

	General Operating Fund	Gift Funds	Endowment Funds	31-Dec 2011 Total	31-Dec 2010 Total	1-Jan 2010 Total
	$	$	$	$	$	$
Assets						
Current						
Cash	**238,297**	**458,917**	**8,255**	**705,469**	1,093,743	372,238
Accounts receivable (Note 5)	**94,588**	**-**	**-**	**94,588**	162,072	48,274
Prepaid expenses	**644**	**-**	**-**	**644**	1,634	2,225
	333,529	**458,917**	**8,255**	**800,701**	1,257,449	422,737
Investments (Notes 6 and 7)	**-**	**132,923**	**4,419,715**	**4,552,638**	3,370,578	2,015,040
	333,529	**591,840**	**4,427,970**	**5,353,339**	4,628,027	2,437,777
Liabilities and fund balances						
Current						
Accounts payable (Notes 5 and 7)	**33,032**	**452,937**	**-**	**485,969**	576,231	307,637
Deferred revenue (Notes 6 and 7)	**-**	**132,923**	**-**	**132,923**	-	-
	33,032	**585,860**	**-**	**618,892**	576,231	307,637
Fund balances	**300,497**	**5,980**	**4,427,970**	**4,734,447**	4,051,796	2,130,140
	333,529	**591,840**	**4,427,970**	**5,353,339**	4,628,027	2,437,777

Approved on behalf of The United Church of Canada Foundation

________________________________ Chairperson, Board of Directors

________________________________ Member of the Board of Directors

The United Church of Canada Foundation/
Fondation de l'Église Unie du Canada

Statement of operations

For the year ended

	General Operating Fund	Gift Funds	Endowment Funds	31-Dec 2011 Total	31-Dec 2010 Total
	$	$	$	$	$
Revenues					
Donations					
General (Note 8)	**73,356**	**-**	**-**	**73,356**	16,303
Designated	**-**	**2,470,874**	**521,594**	**2,992,468**	3,331,040
Grants	**-**	**-**	**-**	**-**	-
Revenue from co-investment program (Note 9)	**185,103**	**142**	**-**	**185,245**	175,949
Investment income	**698**	**-**	**126,681**	**127,379**	699
	259,157	**2,471,016**	**648,275**	**3,378,448**	3,523,991
Expenses					
Grants (Note 7)	**70,449**	**2,455,430**	**86,530**	**2,612,409**	1,776,709
Fund development	**2,905**	**-**	**-**	**2,905**	408
Resource	**328**	**-**	**-**	**328**	5,949
Office	**5,595**	**-**	**-**	**5,595**	4,813
Investment fees from co-investment program					
Congregationals	**23,243**	**-**	**-**	**23,243**	30,831
Foundation	**25,015**	**-**	**-**	**25,015**	5,323
Travel and meeting	**6,690**	**-**	**-**	**6,690**	22,552
Professional fees	**5,556**	**-**	**-**	**5,556**	32,796
Property and insurance	**1,693**	**-**	**-**	**1,693**	5,964
	141,474	**2,455,430**	**86,530**	**2,683,434**	1,885,345
Surplus before the following	**117,683**	**15,586**	**561,745**	**695,014**	1,638,646
Change in fair value of investments	**-**	**(16,010)**	**3,647**	**(12,363)**	283,010
Surplus (deficit)	**117,683**	**(424)**	**565,392**	**682,651**	1,921,656

The United Church of Canada Foundation/
Fondation de l'Église Unie du Canada

Statement of changes in fund balances

For the year ended

	General Operating Fund	Gift Funds	Endowment Funds	31-Dec 2011 Total	31-Dec 2010 Total
	$	$	$	$	$
Fund balances, beginning of year	**214,089**	**6,404**	**3,831,303**	**4,051,796**	2,130,140
Surplus (deficit)	**117,683**	**(424)**	**565,392**	**682,651**	1,921,656
Net inter-fund transfers (Note 8)	**(31,275)**	**-**	**31,275**	**-**	-
Fund balances, end of year	**300,497**	**5,980**	**4,427,970**	**4,734,447**	4,051,796

The United Church of Canada Foundation/
Fondation de l'Église Unie du Canada

Statement of cash flows

For the year ended

	31-Dec 2011	31-Dec 2010
	$	$
Operating		
Surplus	**682,651**	1,921,656
Items not affecting cash		
Change in fair value of investments	**12,363**	(283,010)
	695,014	1,638,646
Changes in non-cash working capital items		
Accounts receivable	**67,484**	(113,798)
Prepaid expenses	**990**	591
Accounts payable	**(90,262)**	268,594
Deferred revenue	**132,923**	-
	806,149	1,794,033
Investing		
Purchase of investments, net of sales	**(1,194,423)**	(1,072,528)
	(1,194,423)	(1,072,528)
Increase (decrease) in cash	**(388,274)**	721,505
Cash, beginning of year	**1,093,743**	372,238
Cash, end of year	**705,469**	1,093,743

1. The United Church of Canada Foundation

The United Church of Canada Foundation (the Foundation) was incorporated as a non-share corporation in 2002 under Part II of the *Canada Corporations Act* and began operations in 2003. It is registered as a charitable organization under the *Income Tax Act (Canada)*, and is not subject to income taxes provided certain disbursement requirements are met.

The purpose of the Foundation is to receive and maintain funds, and to apply all or part of the principal and income thereof to support the mission of The United Church of Canada (The United Church), and other registered charities.

As a not-for-profit entity, the Foundation's operations are reliant on revenues generated annually. In addition, it relies on The United Church to provide support services as described in a relationship and governance agreement (described below). The Foundation has accumulated unrestricted funds over its history, which is included in the general operating fund balance in the statement of fund balances. A portion of the accumulated unrestricted funds is retained as working capital (current assets less current liabilities). The remaining unrestricted funds are available for the use of the Foundation at the Board's discretion. The Foundation has complied with the external restrictions on the Gift Funds and Endowment Funds.

As of July 1, 2009, the Foundation entered into a relationship and governance agreement with The United Church. The agreement specifies how the two entities will work together in the areas of: fundraising, fund management, fund disbursement and grants oversight, staffing and budget, and governance. This agreement is reviewed periodically.

2. Financial statement presentation

General

These financial statements include the assets, liabilities, revenues, expenses, and cash flows under the direct administration of the Foundation, and exclude those under the administration of the congregations, presbyteries, conferences and partner organizations of the United Church of Canada (Note 9). Contributed goods and services are not recorded in the financial statements of the Foundation. Volunteers make a substantial contribution of time each year to assist the Foundation in carrying out its activities. Due to the difficulty in determining the fair value of such contributed services, they are not recognized in these financial statements.

Fund accounting

These financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations established by The Canadian Institute of Chartered Accountants (CICA) using the restricted fund method of reporting restricted donations.

General Operating Fund

The General Operating Fund records the day-to-day operations of the Foundation. The Foundation also administers a congregational investment project and makes available an investment manager for the congregations.

Gift Funds

The Gift Funds record donor receipts and disburse the funds based on specific instructions within a twenty-four month period.

2. Financial statement presentation (continued)

Endowment Funds

The Endowment Funds have specific restrictions placed by donors with respect to the maintenance of the capital of the funds and the use of investment income accruing to the funds.

3. Transition

The Canadian Accounting Standards Board has completed the revision of its recommended accounting standards for not-for-profit organizations and effective January 1, 2011 the Foundation has adopted these revised accounting standards, which have been applied consistently and retrospectively. Only one adjustment was required. This adjustment relates to the presentation of the change in unrealized gains and losses from investments, which is now provided in the statement of operations rather than in the statement of changes in fund balances. The presentation of the unrealized gains and losses is provided separately in the statement of operations under the caption "changes in fair value" to better disclose the impact of market fluctuations on the operating activities of the Foundation. As a result, there was no impact on any of the prior year fund balances or cash flows except as noted below.

	$
Surplus (deficit) at December 31, 2010, as previously reported	1,701,609
Changes in unrealised gains (losses) in investments classified as available for sale	220,047
Surplus (deficit) at December 31, 2010, restated	1,921,656

4. Summary of significant accounting policies

The significant accounting policies followed by the Foundation are as follows:

Revenue recognition

Restricted donations are recorded as restricted funds. Unrestricted contributions are recorded in the General Operating Fund and are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Net proceeds from the sale of gifted securities to the Gift Funds are recorded as revenue and expense in the period in which the proceeds are received. Undisbursed proceeds are recorded in deferred revenue and accounts payable until such time, not to exceed twenty-four months, the donor designates a congregation or charity to which the proceeds are to be disbursed.

Investments

Investments are stated at fair value, with changes in fair value recognized in the statement of operations. Fair value is determined based on the closing bid price.

4. Summary of significant accounting policies (continued)

Financial instruments and risk management

The Foundation has classified each of its financial instruments into the following accounting categories. The category for an item determines its accounting.

Asset/Liability	Measurement
Cash	Fair value
Investments	Fair value
Accounts and contributions receivable	Amortized cost
Accounts payable and accrued liabilities	Amortized cost

Liquidity risk

Liquidity risk is the risk the Foundation could encounter difficulty in meeting its obligations as they come due. The Foundation uses its working capital to mitigate such risk.

Interest rate risk

The investments of the Foundation do not include instruments that are sensitive to changes in interest rates.

Concentration of credit risk

The Foundation has no direct or specific concentration of credit risk because the investments comprise units of a pooled balance fund.

Market risk

Market risk arises from the possibility that changes in market prices will affect the value of the financial instruments of the Foundation. The investments of the Foundation are exposed to fair value fluctuations. The Church's short-term instruments (accounts receivable and accounts payable) are not subject to market risk.

Use of estimates

The preparation of financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires the Foundation to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

5. Related parties

Membership on the Board of Directors of the Foundation requires prior approval of the General Council of The United Church of Canada. As such, The United Church exerts significant influence over the Foundation and all transactions between the two entities are conducted at exchange amount, which is the amount agreed to by the parties. The United Church and the Foundation are subject to a relationship and governance agreement, which requires The United Church of Canada to pay for all Foundation expenses, related to salary and benefits, fundraising and governance activities. These expenses are not included in these financial statements.

In 2011 the Foundation issued grants to the Mission and Service and other funds of The United Church totaling $992,631 (2010 - $192,550).

5. Related parties (continued)

The Foundation had nil amounts receivable as at December 31, 2011 (2010 - $111,306) and amounts payable totaling $2,626 (2010 - $40,147) from/to The United Church which are included in accounts receivable and in accounts payable, respectively. These amounts are non-interest bearing.

6. Investments

The United Church of Canada Foundation has adopted the policy of socially responsible investing developed by The United Church of Canada. Under that policy, the Foundation has chosen to invest in the Fiera Balanced Fund, which is managed by Fiera Sceptre Inc. (Fiera) and adheres to the socially responsible investment requirements of The United Church of Canada Foundation. As of December 31, 2011, the Foundation holds 425,759 (2010 – 323,286) units in the pooled fund with a unit value of $10.38 as at December 31, 2011 (2010 - $10.43). At December 31, 2011, The Foundation held two bonds totaling $132,923 which are included in investments in the Gift Funds. The receipt of these bonds was recorded as deferred revenue in the statement of financial positions

7. Gift Funds

The Foundation receives and issues receipts (and tax receipts) for gifts of securities intended for congregations and other registered charities. These receipts are recorded as designated donations. The sale proceeds, less brokerage and administrative costs, are passed on to the charities of the donors' choice. For each participating donor a personal fund is established, into which flow-through gifts are made. The disbursements made to the charities from the sale of securities are considered flow-through grants and are recorded as a grant expense. Undisbursed proceeds are recorded in deferred revenue and accounts payable until such time, not to exceed twenty-four months, the donor designates a congregation or charity to which the proceeds are to be disbursed. .

8. Net inter-fund transfers

The Foundation accounts for its fund administrative fees and donor undesignated general donations in the net inter-fund transfer accounts. The administrative fees as required by Fiera Sceptre Inc. for Endowment Funds are charged by the General Operating fund quarterly at 0.25% of the average fund balance and reflected as inter-fund transfers. Administrative fees are charged to Gift Funds at a fixed amount only if the disbursement from the Fund is to a non-United Church related organization. The administrative fees charged to Endowment Funds total $40,760 (2010 -$29,795). Donor undesignated general donations totaling $72,035 (2010 - $13,410) were included in the General Operating Fund donations and transferred to the Endowment Funds.

9. Co-investment program

Under the co-investment program, the Foundation provides the congregations, presbyteries, conferences and partner organizations of The United Church access to its investment manager, Fiera Sceptre Inc., who contracts with each participant for investment management services. The Foundation provides administrative support services with regards to the co-investment program as described in a service agreement with Fiera which was revised effective July 1, 2011. The investment assets of the congregations and other participants are not recorded in the Foundation's financial statements. As part of the revised agreement, the Foundation added its investments to the co-investment program. At December 31, 2011 the investments totaled $23.1 million (2010 - $22.3 million). The participants in the co-investment program are charged a fee under this program by Fiera. The fee for each participant is 0.25% of the average quarterly value of the investments included in the co- investment program. Fiera retains 20% of the fee and forwards 80% of the fees earned from the program to the Foundation. The total revenue for the Foundation in 2011 was $185,103 (2010 - $175,949) and the expenses incurred in relation to the program total $48,258 (2010 - $36,154). Under the revised agreement, the Foundation pays the account maintenance fees for any participant that holds investments whose average market value is less than $180,000. In 2011 The Foundation paid $5,262 in account maintenance fees.

10. Guarantees

In the normal course of business, the Foundation enters into agreements that meet the definition of a guarantee. The Foundation's primary guarantees are as follows:

(a) Indemnity has been provided to all trustees, directors, officers and volunteers of the Foundation for various items including, but not limited to, all costs to settle suits or actions due to association with the Foundation, subject to certain restrictions. The Foundation has purchased directors' and officers' liability insurance to mitigate the cost of any potential future suits or actions. The term of the indemnification is not explicitly defined, but is limited to the period over which the indemnified party served as a trustee, director, officer or volunteer of the Foundation. The maximum amount of any potential future payment cannot be reasonably estimated.

(b) In the normal course of business, the Foundation has entered into agreements that include indemnities in favour of third parties, such as confidentiality agreements as well as engagement letters with advisors and consultants. These indemnification agreements may require the Foundation to compensate counterparties for losses incurred by the counterparties as a result of breaches in representation and regulations or as a consequence of the transaction. The terms of these indemnities are not explicitly defined and the maximum amount of any potential reimbursement cannot be reasonably estimated.

The nature of these indemnification agreements prevents the Foundation from making a reasonable estimate of the maximum exposure due to the difficulties in assessing the amount of liability that stems from the unpredictability of future events and the unlimited coverage offered to counterparties. Historically, the Foundation has not made any significant payments under such or similar indemnification agreements, and therefore, no amount has been accrued in the statement of financial position with respect to these agreements.